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BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
Commissioner

Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION)
OF ARIZONA ELECTRIC POWER)
COOPERATIVE, INC. FOR THE)
COMMISSION, PURSUANT TO A.R.S. § 40-)
252, TO REOPEN ITS JANUARY 6, 2011)
RATE DECISION NO. 72055 FOR THE)
LIMITED PURPOSE OF AUTHORIZING)
AMENDMENTS TO ADDRESS THE RATE)
DESIGN AND COST RECOVERY ISSUES)
DESCRIBED HEREIN)

DOCKET NO.E-01773A-09-0472

DECISION NO. 72735ORDERAMENDS DECISION NO. 72055

Open Meeting
December 13 and 14, 2012
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. On October 20, 2011, Arizona Electric Power Cooperative, Inc. ("AEPCO") filed an application requesting that the Commission exercise its authority pursuant to A.R.S. § 40-252 to reopen and amend Decision No. 72055 dated January 6, 2011, the Commission's order in AEPCO's last general rate case. The purpose of the proposed amendments is to correct errors in the calculation of rates, which errors are attributable to the allocation of fixed gas costs.

2. On November 10, 2011, AEPCO filed amendments and supplements to the October 20, 2011 Application (hereinafter collectively referred to as the "Application") to reflect the unanimous agreement reached on November 9, 2011, among AEPCO's management and all of its Class A members regarding the best and most equitable way to correct fixed gas cost allocation

1 errors detailed in the October 20, 2011 filing. For clarity and simplicity, "Application" refers to
2 AEPCO's request as amended by its November 10, 2011 filing.

3 3. AEPCO is a non-profit electric generation cooperative that serves the power needs
4 of its three all-requirements ("CARMs") and three partial-requirements ("PRMs") Class A
5 member distribution cooperatives. Those member distribution cooperatives, in turn, use the power
6 supplied by AEPCO to meet the electricity needs of approximately 144,000 residential,
7 commercial, agricultural and industrial retail customers who are located primarily in Arizona's
8 rural areas. The three CARMs are Anza Electric Cooperative ("Anza"), Duncan Valley Electric
9 Cooperative ("Duncan Valley"), and Graham County Electric Cooperative ("Graham County").
10 The three PRMs are Trico Electric Cooperative ("Trico"), Sulphur Springs Valley Electric
11 Cooperative ("SSVEC"), and Mohave Electric Cooperative ("Mohave").

12 4. In relation to its new rates and Fuel and Purchased Power Clause Adjustor
13 ("PPFAC"), AEPCO incurred approximately \$3.8 million of fixed gas costs in the test year.
14 AEPCO pays these costs to assure the availability of (a) flame stabilization gas for its coal units as
15 well as (b) gas for fuel for its gas-fired units at the Apache Generation Station, so that those units
16 can generate electricity anytime they are called upon for use by or for AEPCO's CARMs and/or
17 PRMs.

18 5. Decision No. 72055 assigned most of these fixed gas costs for cost recovery
19 through AEPCO's Base Resources and Other Resources Energy Rates. The allocation was based
20 on the assumed levels of gas fired generation use indicated in a billing model reflecting usage in
21 the adjusted test year. The Commission also ordered that any increases or decreases in the test
22 year level of fixed gas costs, which are booked to RUS Accounts 501 and 547, would be recovered
23 from or refunded to AEPCO's members on an energy use basis through PPFAC rates that are
24 adjusted semi-annually.

25 6. In preparing its initial semi-annual PPFAC adjustor filing for October 1, 2011
26 implementation, AEPCO discovered that actual energy use of its gas-fired units was significantly
27 different from what was indicated by the billing unit model. Consequently, the current rate tariff --
28 distorted by the error in fixed gas cost allocation -- (a) is producing an inequitable allocation of

1 costs among AEPCO's members, (b) results in an energy price signal that is artificially
2 disadvantaging AEPCO's Apache Station Units against the rest of the purchased power market, (c)
3 is not allowing the timely recovery of these fixed costs that the Commission (pursuant to Decision
4 No. 72005) had intended be recovered, and (d) if not properly altered, will weaken AEPCO's
5 financial position due to substantial margin losses as a result of its not recovering significant costs
6 that the Commission intended to be recovered on a timely basis.

7 7. Inequitable allocation of fixed gas costs and the disadvantage to AEPCO's Apache
8 Station Units against the rest of the market that, among other things, produces diminished third-
9 party sales' margins that otherwise would be available to reduce the cost of service to AEPCO's
10 members and, correspondingly, their retail customers, and the failure by AEPCO to recover costs
11 that the Commission intended be recovered on a current and ongoing basis, and finally the
12 resulting substantial margin losses that harm AEPCO's strength are contrary to the public interest.

13 8. This Application requests the following amendments to Decision No. 72055.

14 *First*, the amendments proposed would correct the error in the allocation of fixed gas costs.
15 Some fixed gas cost components used in the rate calculations for initial compliance with Decision
16 No. 72055 were listed as "reservation" charges rather than as "capacity" charges, thus creating an
17 ambiguity that spawned allocation errors. Some "reservation" items were improperly allocated
18 based on energy rather than ACP (Allocated Capacity Percentage), contrary to provisions of
19 contracts executed by the Cooperatives and approved by the Commission (members' contracts
20 were approved by the Commission in the Rate Decision No 72055, Finding 67, First Ordering
21 Paragraph, page 17). The proposed Amendment will shift recovery of test year fixed gas costs
22 from the CARMs and PRMs' Base Resources and Other Resources energy rates to recovery
23 through the Class A members' Fixed Monthly Charges, and will recover or refund any increase or
24 decrease in those costs through the PPFAC on an Allocated Capacity Percentage ("ACP") basis.
25 An energy allocation for fixed gas costs results in cooperatives with negligible usage (relative to
26 usage in the test-year period used for the rate calculation) being substantially under-billed for fixed
27 cost components. The error in allocating fixed gas costs has inequitably benefited Mohave and
28 SSVEC at the expense of Trico. The amendment requested will shift recovery of the

1 approximately \$3.6 million in test year fixed gas costs-which are currently assigned for recovery
2 through the CARMs and PRMs' Base Resources and Other Resources energy rates to recovery
3 instead through the Class A members' fixed monthly charges. AEPCO also requests that the
4 Commission authorize it to recover or refund any increase or decrease in the test year fixed gas
5 costs' amount through the PPFAC on a member Allocated Capacity Percentage ("ACP") basis.

6 Subject to approval of this Application, AEPCO shall implement revised PPFAC Adjustors
7 and Bases and file a revised CARM Tariff and PRM Schedule incorporating the approved revised
8 energy rates and Fixed Monthly Charges (shown in Exhibit B of the November 10, 2011 filing)
9 and providing that recovery or refund of any increase or decrease in test year fixed gas costs
10 through the PPFAC would be on a member Allocated Capacity Percentage basis.

11 *Second*, as of the effective date of the tariffs revised pursuant to this Application (tariffs
12 that shift recovery of the fixed gas costs to the Class A members' fixed monthly charges), AEPCO
13 requests that amendments authorize AEPCO to collect a surcharge over a twelve-months period to
14 recover any further fixed gas cost under-collections which occur from July 1, 2011, to the effective
15 date of those revised tariffs.

16 *Third*, in order to mitigate rate impacts on its members and their retail customers and to
17 reach the unanimous consensus of all six Class A members, AEPCO has agreed to write off all of
18 the approximately \$1.998 million in fixed gas costs which it incurred from January 1, 2011 to July
19 1, 2011. Accordingly, this Application asks that the Commission authorize the Cooperative not to
20 recover through the PPFAC that \$1.998 million in costs. (This supersedes AEPCO's request in its
21 October 20, 2011 filing to recover \$1.43 million in fixed gas costs.)

22 9. AEPCO is requesting that the Commission authorize the revised PPFAC Adjustors
23 and Bases for each cooperative which are stated in Exhibit A of the November 10, 2011 filing.
24 The revised PPFAC Adjustors and Bases take into account the effect of writing-off the \$1.998
25 million in fixed gas costs discussed above. PPFAC "Bases" refers to the base PPFAC rates, which
26 typically do not change except in cases such as this where errors are discovered in the calculations.
27 PPFAC "Adjustors" are intended to be mechanisms for truing-up fuel and purchased power-related
28 costs. PPFAC Adjustors (Base Resources Power Cost Adjustor Rates and Other Resources Power

Cost Adjustor Rates) are shown as zero (as expected) initially at the time of implementation of Decision No. 72055 (see section under the boxed table on pages 5 and 6 of Exhibit A of Decision No. 72055). The current authorized levels of these PPFAC adjustors were recently established in the routine periodic PPFAC filing. AEPCO's PPFAC Adjustors, as the PPFAC Bases, are affected by the correction of the allocation error for fixed gas costs. Exhibit A of the November 10, 2011 filing is attached hereto, and the results (revised PPFAC Adjustors and Bases) are summarized in the following table.

10. *AEPCO's Proposed 40-252 PPFAC Adjustors and PPFAC Bases (in \$/kWh)*

Description	CARM's	Mohave	SSVEC	Trico
1. Base Resources Power Cost Adjustor Rate	\$0.00589	\$0.00936	\$0.00683	\$0.00463
2. Other Resources Power Cost Adjustor Rate	(\$0.06018)	(\$0.04369)	(\$0.04614)	(\$0.07824)
3. Base Resources PPFAC Base	\$0.03513	\$0.03454	\$0.03449	\$0.03431
4. Other Resources PPFAC Base	\$0.07188	\$0.06191	\$0.06449	\$0.08274

11. If this Application is approved, revised PPFAC Bases (line 7 of Exhibit B of the November 10, 2011 filing) will replace the current rates shown on line 16 of Exhibit B of the November 10, 2011 filing and confirmed in Decision No. 72055 on page 3 of Exhibit A, line 5 (\$0.003361), and in Decision No. 72055 on page 3 of Exhibit B, lines 7 and 8 (see BFB - \$0.03330 for Mohave, \$0.03337 for SSVEC, and \$0.03336 for Trico)

12. Base Resources Energy Charges and Other Resources Energy Charges are best understood as traditional tariff rates (as opposed to the PPFAC-related Power Cost Adjustors and PPFAC Bases summarized above and in Exhibit A of November 10, 2011 filing for amended results). Traditional tariff rates do not change outside an evidentiary rate proceeding except when changes involve correction of an error in the implementation of a rate decision – as is the case here with the allocation error. The current Base Resources Energy Charges (designated as Base Resources Energy Rates on pages 5 and 6 of Exhibit A of Decision No. 72055) are also shown for informational purposes on line 13 of Exhibit B of the November 10, 2011 filing. Current Base Resources Energy Charges (Rates) are confirmed in Exhibit A from page 5 (for PRMs) and

1 Exhibit A page 6 (for CARMs) of Decision No. 72055. Revised Base Resources Energy Charges
2 are shown on line 4 of Exhibit B of the November 10, 2011 filing.

3 13. The current Other Resources Energy Charges (designated as Other Resources
4 Energy Rates on pages 5 and 6 of Exhibit A of Decision No. 72055) are also shown for
5 informational purposes on line 14 of Exhibit B of the November 10, 2011 filing. Current Other
6 Resources Energy Charges (Rates) are confirmed in Exhibit A from page 5 (for PRMs) and
7 Exhibit A page 6 (for CARMs) of Decision No. 72055. Revised Base Resources Energy Charges
8 are shown on line 5 of Exhibit B of the November 10, 2011 filing.

9 14. Finally, the correction of the fixed gas cost allocation will affect the Total Fixed
10 Charges in \$/month and O&M charges in \$/month. Current rates are shown in Exhibit A from
11 page 5 (for PRMs) and Exhibit A page 6 (for CARMs) of Decision No. 72055. Revised rates are
12 shown for Total Fixed Charges in \$/month and O&M charges in \$/month on lines 2 and 3,
13 respectively, of Exhibit B of the November 10, 2011 filing.

14 15. The revised Base Resources Energy Charges, Other Resources Energy Charges,
15 Total Fixed Charges in \$/month and O&M charges in \$/month are detailed in Exhibit B of
16 AEPCO's November 10, 2011 filing, which Exhibit B is attached hereto. Exhibit B also includes
17 the results from Exhibit A of the November 11, 2011 filing. Exhibit B is a summary of the revised
18 rates which AEPCO requests the Commission authorize to move recovery of the fixed gas costs
19 from the Class A members' energy rates to their Fixed Monthly Charges. Line 40 of Exhibit B
20 shows that the rates are designed only to allow AEPCO to recover its test year fixed and other
21 costs. The revised rates do not result in an increase in AEPCO's approved test year revenue
22 requirement. The revised rates are "revenue neutral" with the respect to current rates, approved
23 pursuant to Decision No. 72055. Revenue neutrality insures that test-year revenue generated by
24 the revised rates equals revenue generated under current rates, a condition that must be met for this
25 Application.

26 16. If this Application is approved, revised rates as summarized in Exhibit B of the
27 November 10, 2011 filing will replace the current rates shown in Decision No. 72055 and
28 conforming changes to Decision No. 72055 will be necessary.

1 17. This Application is supported by member cooperatives and AEPCO's 13-member
2 Board of Directors, which is elected annually by the member cooperatives' retail member
3 customers. Twelve members of the Board are elected by AEPCO's six Class A member
4 distribution cooperatives listed above. At its September 14, 2011 meeting, AEPCO's Board
5 unanimously authorized the filing of this Application. Moreover, the six Class A member
6 cooperatives have provided letters of support for this Application.

7 18. Staff has recommended that Decision No. 72055 be amended for the limited
8 purposes described herein. As such, revised rates shown in Exhibit B of AEPCO's November 10,
9 2011 filing should replace corresponding rates in page 8, page 9, and Exhibit A of Decision No.
10 72055.

11 19. Staff has also recommended that PPFAC rates that became effective on October 1,
12 2011 be replaced with the adjustor rates contained in Exhibit A of AEPCO's November 10, 2011
13 filing.

14 20. Staff has recommended approval for AEPCO to collect a surcharge over a twelve-
15 month period to recover any further fixed gas cost under-collections which occur from July 1,
16 2011, to the effective date of the Decision in this case.

17 21. Staff has also recommended that in order to mitigate the impact of its members and
18 their retail members of the approximately \$1.998 million in fixed cost incurred by AEPCO from
19 January 1 to July 1, 2011, AEPCO is authorized not to recover that cost amount through its
20 PPFAC.

21 22. These approvals will correct inadvertent errors made in calculating rates pursuant to
22 the Commission's Decision in AEPCO's last rate case. The proposed amendments are in the
23 public interest and will promote the equitable distribution of cost responsibility among member
24 cooperatives approved by the Commission in Decision No. 72055. The Application is supported
25 by all six Class A member cooperatives and AEPCO's Board of Directors who represent the
26 member cooperatives' retail customers.

27 23. Staff has further recommended that AEPCO file revised tariffs consistent with the
28 Decision in this case within 15 days of the effective date of the Decision.

CONCLUSIONS OF LAW

1. AEPCO is a public service corporation within the meaning of Article XV of the Arizona Constitution and Arizona statutes.

2. The Commission has jurisdiction over AEPCO and the subject matter of this application.

3. The Commission provided notice and opportunity to be heard on AEPCO's 40-252 Petition in accordance with the law.

4. Upon due consideration of the matter, the Commission hereby modifies Decision No. 72055 in the manner discussed herein.

ORDER

IT IS THEREFORE ORDERED that Decision No. 72055 is hereby amended as set forth in Findings of Fact 18, 19, 20 and 21 above;

IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall file revised tariffs consistent with the Decision in this case within 15 days of the effective date of the Decision.

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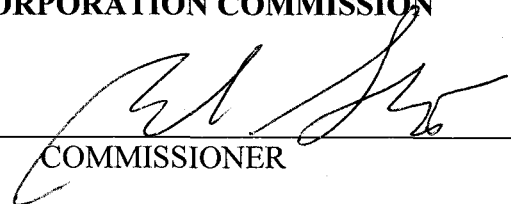
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1 IT IS FURTHER ORDERED that all other requirements in Decision No. 72055
2 shall remain in effect.

3 IT IS FURTHER ORDERED that this Decision shall become effective
4 immediately.

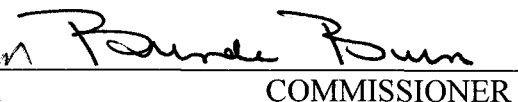
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7 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

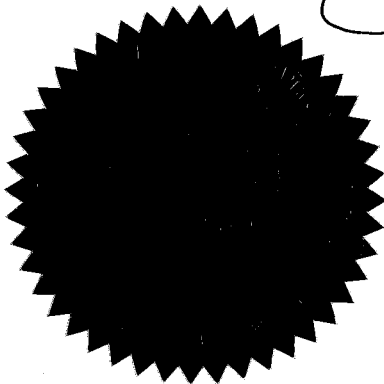
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9 
10 CHAIRMAN


COMMISSIONER

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12 
13 COMMISSIONER


COMMISSIONER


COMMISSIONER



14 IN WITNESS WHEREOF, I ERNEST G. JOHNSON,
15 Executive Director of the Arizona Corporation Commission,
16 have hereunto, set my hand and caused the official seal of this
17 Commission to be affixed at the Capitol, in the City of Phoenix,
18 this 6th day of JANUARY, 2012.

19 
20 ERNEST G. JOHNSON
21 EXECUTIVE DIRECTOR

22 DISSENT: _____

23
24 DISSENT: _____

25 SMO:DBE:MAS/tdp
26
27
28

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DOCKET NO. E-01773A-09-0472

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Arizona Electric Power Cooperative, Inc.

Summary of Amended 40-252 Proposed PPFAC Adjustor Rates Six Months Ended June 30, 2011

Line No.	Description	Col. 1	Col. 2	Col. 3	Col. 4
		CARM Rate Tariffs	MEC Rate Tariffs	SSVEC Rate Tariffs	TEC Rate Tariffs
1	40-252 Proposed PPFAC Adjustor Rate Tariffs and Bases:				
2	Base Resources Power Cost Adjustor Rate - \$/kWh	\$0.00589	\$0.00936	\$0.00683	\$0.00463
3	Other Resources Power Cost Adjustor Rate - \$/kWh	(\$0.06018)	(\$0.04369)	(\$0.04614)	(\$0.07824)
4					
5	Base Resources PPFAC Base	\$0.03513	\$0.03454	\$0.03449	\$0.03431
6	Other Resources PPFAC Base	\$0.07188	\$0.06191	\$0.06449	\$0.08274

Arizona Electric Power Cooperative, Inc.

Comparison of 40-252 Proposed Rates and Current Rates

Test Year Ended March 31, 2009

Line No.	Description	Col. 1 CARM Rate Tariffs	Col. 2 MEC Rate Tariffs	Col. 3 SSVEC Rate Tariffs	Col. 4 TEC Rate Tariffs
1	40-252 Proposed Rate Tariffs:				
2	Total Fixed Charges - \$/Month	\$273,334	\$835,756	\$740,041	\$710,367
3	Total O&M Charges - \$/Month	\$414,019	\$1,274,882	\$1,128,876	\$764,465
4	Base Resources Energy Charge - \$/kWh	\$0.03132	\$0.03191	\$0.03205	\$0.03214
5	Other Resources Energy Charge - \$/kWh	\$0.05300	\$0.05852	\$0.05742	\$0.05747
6					
7	Base Resources PPFAC Base	\$0.03513	\$0.03454	\$0.03449	\$0.03431
8	Other Resources PPFAC Base	\$0.07188	\$0.06191	\$0.06449	\$0.08274
9					
10	Decision No. 72055 Authorized Rates:				
11	Total Fixed Charges - \$/Month	\$238,793	\$727,283	\$643,991	\$646,435
12	Total O&M Charges - \$/Month	\$414,019	\$1,274,882	\$1,128,876	\$764,465
13	Base Resources Energy Charge - \$/kWh	\$0.03156	\$0.03215	\$0.03229	\$0.03238
14	Other Resources Energy Charge - \$/kWh	\$0.06170	\$0.06879	\$0.06676	\$0.06604
15					
16	Base Resources PPFAC Base	\$0.03361	\$0.03330	\$0.03337	\$0.03336
17	Other Resources PPFAC Base	\$0.07941	\$0.06971	\$0.07241	\$0.09084
18					
19	Difference from Decision No. 72055 Rates:				
20	Total Fixed Charges - \$/Month	\$34,542	\$108,473	\$96,050	\$63,932
21	Total O&M Charges - \$/Month	\$0	\$0	\$0	\$0
22	Base Resources Energy Charge - \$/kWh	(\$0.00024)	(\$0.00024)	(\$0.00024)	(\$0.00024)
23	Other Resources Energy Charge - \$/kWh	(\$0.00870)	(\$0.01026)	(\$0.00934)	(\$0.00857)
24					
25	Base Resources PPFAC Base	\$0.00152	\$0.00125	\$0.00112	\$0.00095
26	Other Resources PPFAC Base	(\$0.00753)	(\$0.00780)	(\$0.00793)	(\$0.00810)
27					
28					
29	Revenues Generated by 40-252 Proposed Rates and Decision No. 72055 Authorized Rates				
30	Test Year Ended March 31, 2009				
31		40-252	Decision 72055		
32	Description	Proposed Rates	Rates	Difference	
33	Test Year Revenues Generated:				
34	Anza	\$3,314,354	\$3,260,032	\$54,322	
35	Duncan	1,891,392	1,858,063	33,328	
36	Graham	10,634,566	10,446,493	188,073	
37	Mohave	55,673,264	55,489,632	183,632	
38	Sulphur Springs	52,330,518	52,370,038	(39,520)	
39	Trico	41,602,227	42,022,063	(419,835)	
40	Total	\$165,446,321	\$165,446,321	\$0	